

QUONSET DEVELOPMENT CORPORATION
MEETING OF THE AUDIT FINANCE COMMITTEE

OCTOBER 17, 2005

A meeting of the Audit Finance Committee of the Quonset Development Corporation (the “Corporation”) was held at 4:00 p.m. on Monday, October 17, 2005, at the offices of the Corporation located at 30 Enterprise Drive, North Kingstown, Rhode Island, pursuant to notice to all members of the Audit Finance Committee and a public notice of the meeting as required by the Bylaws of the Corporation and applicable Rhode Island Law..

The following directors constituting a quorum were present and participated throughout the meeting as indicated: Robert Crowley, Barbara Jackson, and John Simpson. Also present were Steve Geremia and Rich Pacheco from the accounting firm of Lefkowitz, Garfinkel, Champi and DeRienzo. The following Quonset Development Corporation staff members were also in attendance: Mary C. Lake, CFO, and Kevin M. Barry, Controller.

1. CALL TO ORDER

The meeting was called to order at 4:07 p.m. by Mr. Crowley as all members were present.

2. APPROVAL OF MINUTES:

Upon motion duly made by Ms. Jackson and seconded by Mr. Crowley the Directors:

VOTED: To approve the Public Session minutes of the September 19, 2005 meeting, as submitted to the Directors.

Voting in favor were: Mr. Crowley, Ms. Jackson and Mr. Simpson.

Voting Against were: none

Unanimously Approved.

3. DISCUSSION OF FY05 DRAFT FINANCIAL STATEMENTS:

Steve Geremia began the discussion of the FY05 Draft Financial Statements. Mr. Geremia noted that because this was the first time the Committee was seeing separate financial statements for QDC, he would go over each section to better acquaint the members with the format of the financial statements.

Mr. Geremia noted that although QDC was a separate legal entity apart from the RI Economic Development Corporation beginning 7/2/04, these financial statements only cover a period of six months, from 1/1/05 to 6/30/05. This is due to the fact that the enabling

legislation that separated QDC from RIEDC did not pass until 1/1/05. Mr. Geremia stated that therefore, there are no prior year comparative financials as QDC was not a separate entity until 1/1/05.

Ms. Jackson asked if there was a significance to the 7/2/04 date and Mr. Geremia stated that there was not. That date was the first day that QDC became a separate legal entity from RIEDC.

Mr. Geremia discussed Pages 1 and 2 of the financials, the Auditor's Opinion, and noted that the financial statements are the sole responsibility of the management of QDC and that the auditors are only responsible to audit those statements in accordance with accounting procedures and to ensure that the statements fairly represent the financial position of QDC as of 6/30/05. Mr. Geremia discussed internal controls and stated that no material weaknesses or instances of non-compliance were found during the audit.

Mr. Geremia discussed Pages 3 and 4 of the financials, the Management Discussion and Analysis letter and noted that this letter is intended to provide a basic overview of the Company's financials and to provide financial highlights for readers and users of the statements.

Mr. Geremia discussed Pages 5 through 9 of the financials, the basic financial statements. Mr. Geremia discussed the balance sheet and the concept of net assets, restricted and unrestricted assets as well

as non-spendable and non-liquidated assets. Mr. Geremia pointed out that the bottom of Page 5 of the financials shows the amount of money invested in capital assets and the unrestricted assets of the Company as of 6/30/05.

Mr. Crowley asked if our assets were adjusted on the financial statements for new market values. Ms. Lake stated that we do not mark to market and Mr. Pacheco noted that this is not a requirement by accounting standards.

Mr. Crowley asked what happens when we demolish buildings. Mr. Barry noted that the net asset of the building would be removed from the books and the cost of demolition added to the basis of the land.

Mr. Geremia discussed Page 5 of the financials and the restricted cash equivalent line item. Ms. Jackson asked what the agreement was that constituted this restricted cash equivalent. Mr. Geremia referred her to footnote 5 on Page 14 of the financials and briefly discussed the footnote. Mr. Simpson asked if we are accruing this as an expense. Mr. Barry stated that we were not because the nature of the agreement would require recording $\frac{1}{2}$ to a capital asset and $\frac{1}{2}$ to a receivable. Ms. Lake stated, however, that these amounts are taken into consideration when forecasting cash flow.

Mr. Geremia discussed Pages 6 and 7 of the financials, the Statement of Revenues and Expenses and Changes in Net Assets. Mr. Geremia

again noted that this shows only 6 months of activity. Mr. Geremia discussed the differences between operating and non-operating activity as well as the line item noted capital contributions. Mr. Geremia discussed that bond funding and grant income are recorded as non-operating revenues when received.

Mr. Geremia continued his discussion by referring to Pages 8 and 9 of the financials, the Statement of Cash Flows. Mr. Geremia noted that the meaning of this statement is to take the Statement of Revenues and Expenses from an accrual basis of accounting to a cash basis.

Mr. Simpson asked for a clarification of the amounts from Page 6 under Total Capital Contributions and Page 8, Bond Proceeds, State and Capital contributions. Mr. Geremia noted that the difference between the two amounts is approximately \$137K, representing a grant receivable from the Federal government. Because that \$137K is not cash, it is not represented in this financial statement.

Mr. Geremia continued with Pages 10 through 18 of the financials which represent the footnotes to the financials. Mr. Geremia proceeded to point out a few footnotes of significance to the Committee. On Page 11, footnote 2, Accounts Receivable, Mr. Geremia stated that it was important to understand that approximately 34% of the outstanding receivables are comprised of two tenants. Mr. Geremia moved to page 12, footnote 2, Leasing and utility and service activities, and noted that three tenants comprise

approximately 73% of the Company's rental revenue and one tenant comprises 29% of the Company's utility and service revenue.

Mr. Geremia then moved to Page 13 and discussed footnote 3, Deposits, and explained how bank deposits are collateralized. Mr. Geremia noted that while many Company's follow RIGL 35-10.1, he recommended that the Committee review QDC's bank deposit policy and determine whether or not it should be more restrictive than the RI State law.

Next, Mr. Pacheco discussed three letters that are prepared in conjunction with the financial statements. One letter, called the SAS61 letter states what the auditor's responsibilities are in conjunction with the audit. Mr. Pacheco noted that the audit adjustments were not out of the ordinary and in fact many of them cannot happen until after the audit is completed.

Mr. Pacheco next commented on the Management Comments letter. He stated that the comments made were not anything to raise any red flags and that there were relatively few comments considering that this is the first audit for QDC as an entity separate from RIEDC. Ms. Lake stated that the comments will be reviewed and corrective action, if any required, will be discussed with the Committee in the months to follow.

Mr. Pacheco then briefly noted that the Management Representation

Letter should be reviewed by Mr. Crowley, Mr. Geoff Grout, CEO, and Ms. Lake and signed and returned to LGC&D as soon as possible.

Ms. Jackson then asked whether or not the auditors perform a payroll audit to check to ensure that employees receiving checks were indeed part of QDC. Mr. Pacheco stated that this was not something the auditors are required to do. However, Mr. Barry stated that each year in April or May, he personally delivers all checks to staff members and requires them to sign for their check.

Ms. Jackson then asked if we are aware of Federal Grant arbitrage rules and ensure that steps are taken to carefully monitor any federal monies that the Company receives. Ms. Lake stated that grant monies are carefully monitored and will continue to be in the future and that the Committee will be kept apprised of these controls.

VOTED: Upon motion made by John Simpson and seconded by Barbara Jackson, it was voted to approve the FY05 Draft Financial Statements for submittal to the Board of Directors.

Voting in favor were: Mr. Simpson, Ms. Jackson and Mr. Crowley.

Voting Against were: none

Unanimously Approved

4. OTHER BUSINESS:

The Committee requested that at that the next scheduled meeting there be a discussion of the Q1 Operating results as well as an update on the status of Capital Project spending.

There being no further business to come before the Committee, upon motion duly made by Mr. Crowley and seconded by Ms. Jackson, the meeting was adjourned at 5:00 p.m.

Respectively submitted:

By:_____

Mary C. Lake, CFO